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Accountant Looks At a Credit Union

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The Accountant Looks At a Credit Union

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What is a credit union? How does it operate? What does it accomplish for its members and for a sponsoring employer or group? . . . These are the questions which might occur to the accountant looking at a credit union from the viewpoint of his own participation or that of his employer or client. These are the questions to be explored in this article.

Concisely, a credit union is an independent, nonprofit corporation chartered and closely supervised by the government for the purposes of pooling the savings of its members and loaning money to a specific group of people. A credit union may be operated under a state charter or a Federal charter. But for our purposes, we will discuss only Federal credit unions because the details of state charters vary widely.

In order to organize a credit union, there must be a prior existing common bond of association between the potential members, such as a common employer, a labor union, a church, or a school. A credit union should be operated only among well-defined groups because its successful operation is influenced by its convenience to members. A credit union has a motive—service, and a primary purpose —to promote thrift. In serving its members there are three major factors with which a credit union is concerned:

1) its trend in average share balances,
2) the number of members who are saving regularly and
3) the percentage of persons eligible for membership who have joined.

A Federal government survey determined that credit unions diminish company loans, garnishments, and attachments; tend to keep employees out of the hands of high-rate money lenders; educate and train employees so they can improve their positions; build up employee morale; result in more cordial relationships among the employees in their daily work; and consequently improve employer-employee relations.

The organizational structure of a credit union differs from that of other corporations and savings and loan organizations in several ways. Only members may borrow from the credit union. Members buy shares of the corporation in five-dollar units. Regardless of the number of shares owned, each member has only one vote. The treasurer is general manager of the credit union, has charge of the assets, keeps the books, prepares all required financial and statistical reports (of which there are many), and is the only officer who may be salaried.

The Federal Credit Union Act empowers credit unions to make loans with maturities not exceeding five years. It limits the rate of interest which may be charged to one per cent per month on the unpaid balance, including all charges incidental to making the loan; however, a credit union may levy late charges.

No loan may be in excess of ten per cent of the credit union's paid-in unimpaired capital and surplus, and no unsecured loan in excess of $750 may be made. Any loan over $750 must be secured, and security may be an assignment of shares. However, the credit committee should approve loans only for such amounts and on such terms as it feels will adequately protect the credit union and be within the borrower's capacity to repay.

A credit union must maintain a reserve or guaranty fund, which can only be used to pay off loans when a borrower cannot meet his obligation. This reserve consists of all entrance fees and charges plus twenty per cent of the net earnings of each dividend period, before the declaration of any dividends. However, when the reserve fund equals ten per cent of the total amount of members' shareholdings, it becomes necessary to transfer only enough to maintain this ratio.

At times it becomes necessary for a credit union to borrow funds for loans or for withdrawals. A credit union may borrow up to fifty percent of its paid-in and unimpaired capital and surplus from any source, and it seldom pledges any of its assets. A credit union has few creditors and the lender would have preference over the members' claims against their shareholdings.

If a credit union has idle funds, it may invest them in:

1) loans exclusively to members;
2) obligations of the United States, or securities fully guaranteed as to the principal and interest thereby;
3) loans to other credit unions, the total amount not exceeding twenty-five per cent of its paid-in and unimpaired capital and surplus;

4) shares or accounts of Federal savings and loan associations; and
5) obligations issued by banks for cooperatives, Federal land banks, Federal intermediate banks, Federal home loan banks, the Federal Home Loan Bank Board, or any other corporation designated as a wholly-owned Government corporation.

When investing, a credit union should consider safety, liquidity, and yield because of its responsibility to its members.

Annually or semiannually, as the bylaws may provide, and after provision for the required reserves, the board of directors may declare a dividend to be paid from the remaining net earnings. Such dividends are paid on all paid-up shares outstanding at the end of the period. However, the Internal Revenue Code stipulates that these dividends are not eligible for the dividend exclusion, but should be treated as interest income by members.

The Federal Credit Union Act states that every credit union must have a December 31 fiscal year-end. It also requires the supervisory committee to make "at least quarterly" audits of the books of its credit union. The audits have two immediate objectives:

1) to verify the existence of the credit union's assets and liabilities as set forth in the treasurer's accounts and to see if the assets are adequately protected; and
2) to determine whether there have been departures from the practices prescribed in the law, bylaws or authorized rulings or from practices generally accepted as sound.

The *Accounting Manual for Federal Credit Unions* gives detailed instructions in regard to the accounting records of a credit union. The principal records must be maintained on forms prescribed or approved by the Federal Credit Union Bureau. All credit unions must use a double-entry bookkeeping system, and a "modified cash basis." This means that usually the income is not accounted for until it is actually received in cash; however, expenses are accounted for in the month in which they become due and payable, regardless of whether the cash disbursements have been made.

The principal bookkeeping records are the Journal and Cash Record, General Ledger, Cash Received Voucher, Journal Voucher, and Individual Share and Loan Ledger.

Since the majority of a credit union's transactions are with members, the Individual Share and Loan Record is vital. It provides chronological detail of the share and loan transactions of the members, and also contains a note record and a "cosigner on notes of others" record. A note is prepared for each loan made to a member in order to give the credit union a legally enforceable negotiable instrument as evidence of the member's obligation to the credit union.

Interest is collected at the time that a repayment on the principal is made, whether it be made weekly or monthly. Interest for rates of less than one month should be computed for the actual number of days. A credit union may also collect interest on a level-payment plan.

Loans to members usually constitute the principal asset in which the funds of the credit union are invested. For this reason, the collection of loans and the control of delinquent loans is an important phase of the credit union's operations. Credit unions are required to prepare a monthly Schedule of Delinquent Loans, which is an aging schedule. Another monthly requirement is the preparation of a Financial and Statistical Report, which is divided into three sections:

1) the Balance Sheet which shows the financial condition of the credit union as of a given date;
2) the Statement of Income and Expenses which reflects the gain or loss from operations for the current year to date; and
3) the Statistical Information which presents statistics on the number of members and potential members; number and amount of loans; amount of loans charged off; and bad debts recovered.

In addition, a list of all new accounts opened and all accounts closed during the month should be prepared.

At December 31 the credit union must close its books and determine the net earnings from the year's operations. It must also transfer the amount necessary to maintain a Regular Reserve equal to ten per cent of the total members' shareholdings to the Regular Reserve Account, and the balance to the Undivided Earnings Account. To accomplish this, all of the income and expense accounts must be closed into the Gain or Loss Account and the balance of this account will then be closed into the Undivided Earnings Account after the proper transfer to the Regular Reserve has been made. The resulting credit balance of the Undivided Earnings Account is the total amount available for dividends and for a possible refund of interest. In the case of a loss, no transfer to the Regular Reserve Account is made and the debit balance of the Gain or Loss Account is transferred to the Undivided Earnings Account. If the Undivided Earnings Account then has a debit balance, no dividend nor refund of interest can be made.

The Federal Credit Union Act empowers the

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The taxpayer will realize that the exhaustive treatment accorded his return is in no way a reflection upon the integrity of his reporting, but is the product of a statistical sampling process. Equally important, he will be apprised of the time demands on the practitioner in this type of examination and the necessity for an increased fee.

The adoption of a proper attitude is as important in the case of the practitioner as it is for the client—even more important, as the brunt of the detailed work falls on his shoulders. It is advisable to contact the Revenue Agent in advance of the actual conduct of the examination and to discuss the documentation required, item by item. The old adage concerning patience being a virtue will never be exercised more completely than in these circumstances. If, as in the case of one recent examination, a request is made for birth certificates in substantiation of credit for dependents, note the requirement and set about obtaining them. In this way, when you have progressed to the examination stage, all of the material will be available for inspection, and the matter can be disposed of as expeditiously as possible.

D.L.B.

ARE WOMEN CPA CANDIDATES KEEPING UP WITH MEN CPA CANDIDATES?

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	Candidates	
	Women	*Men*
SAT Mathematical		
Median	574	550
Percentile	81	61
Number	46	2,486
AICPA Orientation		
Median percentile	71	65
Number	15	641
AICPA Level II Achievement		
Median percentile	82	70
Number	42	2,105

Not all candidates took these tests; and the small number of women candidates taking them may cast some doubt on the statistical validity of the data for them. The Scholastic Aptitude Test rankings are based on all students taking the Tests who entered college. The Orientation and Achievement Test rankings are based on college students who took the Test in their senior year.

Are Women CPA Candidates Keeping up with Men CPA Candidates?

The answer to the question is not clear-cut. On the one hand, while the percentages of women candidates with college education and with postgraduate study are greater than the percentages for 1948 candidates, women candidates appear to have lagged behind in the trend toward obtaining more college degrees and doing more postgraduate work. On the other hand, the data for college graduates indicate that women candidates have higher academic abilities than the men.

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board of directors to authorize refunds of interest to members of record as of December 31 in proportion to the amount of interest paid by them during the year. Ordinarily, the amount of interest refund due each borrower should be a credit to his share account.

After determining the amount available for dividends, it is necessary to determine for each member the total number of full share dollars upon which a dividend can be paid. Federal Credit Unions are also required to retain as part of their records a Dividend Record Form which itemizes the account number, name, full-share dollars, amount of dividend and method of payment for each member.

The property, franchises, capital, reserves, surpluses, funds, and income of Federal Credit Unions are exempt from all Federal and state income taxes. Credit unions must file Forms 1096 and 1099; however, in lieu of the filing of a separate annual return, Form 990, by each of the individual Federal Credit Unions, a group information return, Form 990, may be filed by the Bureau of Federal Credit Unions covering all of the exempt Federal Credit Unions under its supervision, according to Revenue Ruling 60-169, 1960-1 CB 62.

Credit unions are big business. At the end of 1960 they had total savings of $4,944,593,818, loans outstanding of $4,329,557,990, reserves of $267,340,766 and total assets of $5,606,189,069. And they are good business, as proved by the fact that less than one-fifth of one per cent of their loans prove uncollectible. They have been formally recognized as "banking institutions" and are included among financial institutions that are considered important in the economy during a national emergency and in the continuing life of our country.